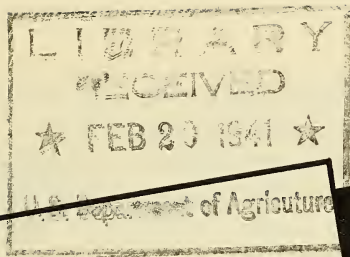


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## Hoosier Progress in **FARM SUPPLY** **PURCHASING**



*Petroleum products make up one-third of the business of Indiana farm supply cooperatives.*

**D**URING recent years Indiana farmers have been buying an increasing number of their farm-supply items through their local cooperatives. Although petroleum products account for about one-third of the cooperative volume, the purchasing associations are now equipped to meet the patrons' needs for almost all of their production requirements.

Aside from better meeting the farmers' needs and demands for service, this policy of handling a wider variety of supplies has had a second important result. It has increased the average earnings of the cooperatives above what otherwise would have been possible. This is simply another way of saying that the policy of expansion has enabled the associations to counteract somewhat the declines in their gross margins on petroleum products.

Between 1934 and 1937 the average gross margin on petroleum products declined from 26.4 to 22.2 cents per dollar of sales. The average gross margin on general supplies increased from 13.7 to 14.2 percent. The greater volume of general supplies handled, however, largely offset the effects of smaller margins realized on petroleum products.

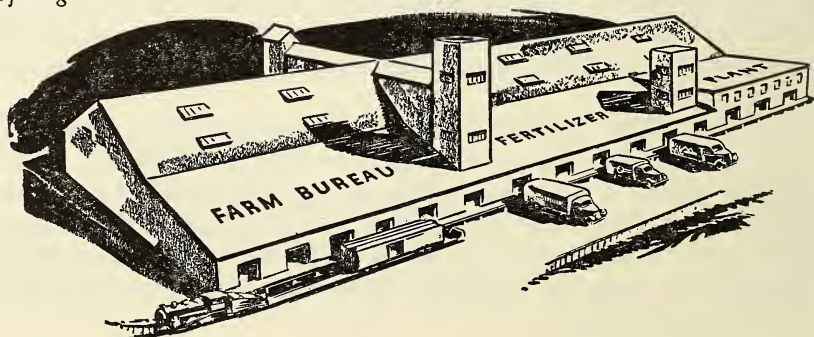
Smaller gross margins, of course, are a logical result of successful cooperative effort. In order to meet the pace set by the cooperatives, private trade tends to reduce its retail prices nearer to actual costs. As this occurs the cooperatives (operating on the same reduced margins which they helped to bring about) often have less net income from which to pay patronage dividends.

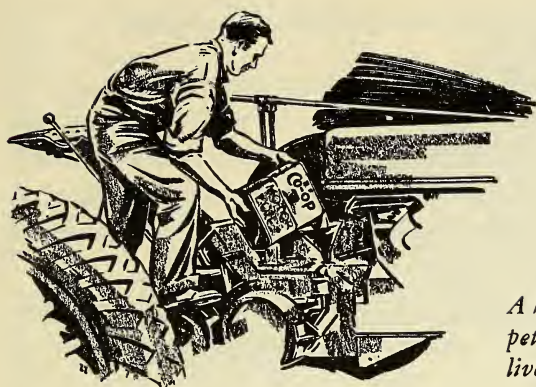
In Indiana almost all of the associations have earned lower average gross margins on a larger total business volume in recent years than in previous periods. A more important fact, however, is that they are providing a much wider supply service to their patrons at prices which in part reflect the economies of cooperative methods of handling.

### *Range of Service Determined by Members*

Today there are some 80-odd county farm-supply cooperatives in the State. Although they have been built largely by efforts of farmer-members of the Indiana Farm Bureau and its county units, each is separately incorporated and independent of any organization. Membership is open to agricultural producers or associations of such producers, with the requirement that each own one or more shares of stock.

*In 1940 the associations operated for the first time their plants for fertilizer mixing and petroleum refining.*





*A high percentage of the costs of petroleum associations is in delivery costs.*

These associations in 1937 had a membership of 60,000. An almost equal number of patrons were in the process of becoming members through the crediting of their refunds to the purchase of a share of stock. Thus, the organizations' activities reflect the needs and demands of at least half of the 200,000 Indiana farmers.

In extending its supply services, each association seeks to follow the desires of its own members. Many of the services are those which are made available by the wholesale purchasing and processing facilities of the Indiana Farm Bureau Cooperative Association, a state-wide federation owned and controlled by its member units. About a third of the locals render marketing services which account for about 17 percent of the volume of all associations. Other services include cooperative hatcheries and the grinding and mixing of feeds. In 1940 the associations undertook fertilizer mixing and petroleum refining in plants established by their state wholesale association.

Of the total business of \$14,500,000 in 1937, petroleum products accounted for 31.1 percent, while feed represented another 20.6 percent, and marketing sales 17.3 percent. Other supplies made up 31 percent of sales, with the following individual percentages:

Supply item:	Percentage that sales of each item were of total 1937 sales
Fertilizer .....	8.4
Farm machinery .....	5.2
Seed .....	4.6
Coal .....	3.8
Building supplies .....	2.8
Fence .....	2.5
Miscellaneous .....	3.7



## *Expense and Volume Are Factors Considered*

In determining the supplies which they handle and the extent of their services, the county purchasing associations in Indiana weigh and consider a number of factors. Two of these already have been mentioned: the needs and desires of the patrons, and the gross margins which are obtainable. Two other factors are also important: the expenses in handling the items, and the volume of sales.

The expenses of doing a farm supply business vary to some extent with the kinds of commodities handled. Associations whose principal business is in petroleum products which are delivered directly to the farms necessarily have a much higher cost for delivery service than those which handle a large proportion of general supplies which farmers generally haul home themselves.

When the associations began operating they distributed mainly supplies such as fertilizer, twine, and fencing, for which there was a known demand. Selling and servicing expenses consequently were low. With growth of a wider variety of supply services—including commodities such as machinery and equipment and building supplies—a larger expense overhead is usually necessary in order to build sales volume and to provide the kind of selling service required by more competitive lines.

Many of these competitive supplies, therefore, can be justified as special services only if farmers provide the cooperatives with sufficient volume of business to produce a net income from the activity. A recognized principle of merchandising is that increased volume of sales contributes to increased net returns per dollar of sales provided past oper-



*One avenue of growth is expansion in volume of sales in supplies which already are handled cooperatively.*

*Supplies should be limited to those which the patron can obtain at a saving through cooperative purchasing.*



ating efficiency is maintained. In the interest of keeping their associations on the most efficient expense basis, therefore, Indiana farmers have an obligation to give them their full patronage in the commodities and services which have been initiated at request of members.

Both volume and expenses have a direct relationship to the earnings of the cooperative and the savings it is therefore able to accomplish for its members. It should be emphasized again, however, that its earnings are also affected by the general gross margins which are in effect on each particular item; and that to the extent that high retail prices are generally reduced, the gross margins earned by the cooperatives also decline.

### *Two Distinct Avenues for Future Growth*

The recent growth of the purchasing associations, and their expansion in the point of services rendered, is shown by comparative figures for 1934 and 1937. These figures show that the average volume of sales by 80 representative cooperatives, including their sale of farm products, increased about 89 percent in this 3-year period. They also show that

	Total sales		Average sales per association		Percentage of total sales	
	1934	1937	1934	1937	1934	1937
Petroleum supplies.....	\$2,977,875	\$4,488,484	\$37,223	\$54,738	36.4	31.1
General farm supplies.....	3,788,356	7,458,097	47,355	90,952	46.2	51.6
Farm products marketed.....	1,427,120	2,503,982	17,839	30,536	17.4	17.3
Total.....	8,193,351	14,450,563	102,417	176,226	100.0	100.0

the sales of general supplies other than petroleum products increased faster than either the petroleum business or the marketing of farm supplies.

Even with the commendable growth in their volume of sales, the associations do not handle more than 20 to 25 percent of Indiana farm purchases of such basic requirements as fertilizer, petroleum supplies, and feed. For the wider range of commodities bought by farmers, such as implements and tractors, fencing, feeders, sprays and spray equipment, seed, twine, building supplies, and coal, the cooperatives do not handle more than 10 to 15 percent of total purchases. It is probable that the \$12,000,000 spent cooperatively for farm supplies in Indiana in 1937 represented not more than 20 percent of all farm supply purchases.

It is obvious therefore that each association has two avenues for continued growth: the expansion of its volume of sales in supplies already handled, and the addition to its line of other commodities. Before increasing the number of supplies handled there are three questions which deserve consideration by the members and directors, each of which has a direct bearing on the matter of gross margins to the association and the savings to the members.

First, how efficiently and completely has the association been able to develop sales in the commodity fields already entered? Attention should be given to developing density of sales in all sections of the counties in both number of patrons served and number of farm supplies sold. Since associations are already located over most of the State, intensifying of sales efforts in the counties offers the associations their greatest opportunity for growth.

A second question is how well are the employees equipped to provide effective service in the new fields? For example, efficient business service in farm machinery usually requires a small beginning with specialized training of employees in the problems of these commodities. The character of the employees of a cooperative association is vital to its successful operation. Although some of the cooperatives have accomplished more than others in training their employees in cooperative principles and in acceptable methods of meeting customers and completing sales transactions, there is still much opportunity for improving their efficiency in these respects. On the whole, the county associations have employed young rural people with some previous business



training and experience. However, the county associations may still expect marked gains in their service to farmers when their employees, especially those engaged in sales and distribution work, have more complete knowledge of commodities handled and effective methods of presenting cooperative opportunities to patrons.

The third question is whether the association is in a position to finance new commodity departments. Here it would be well to emphasize that cooperatives should enter new supply fields advisedly, and only when they have enough capital to provide the basic financing of the undertaking.

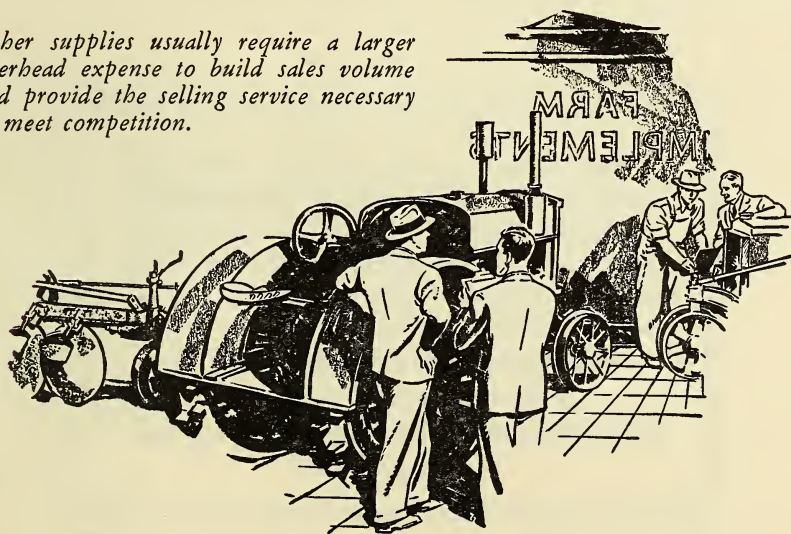
### *The Member's Interest in His Cooperative*

As for the individual member of a farm supply cooperative, his principal interest is likely to be in the services which his organization provides him. His chief responsibility in this direction is in helping to maintain an adequate volume of business.

The services which he demands should be only those he is willing to support. They should be confined to the commodities which he and his fellow members can obtain at a saving through cooperative purchasing. They should include only those items which the association can handle in sufficient quantity and at low enough cost to assure a gross margin earning.

The services which the member demands should be limited to those which make for efficient operation. They should exclude activities

*Other supplies usually require a larger overhead expense to build sales volume and provide the selling service necessary to meet competition.*



which add excessively to the costs of doing business. They should not include the extensive granting of credit, because farmers do not get their supplies at the lowest cost when credit expenses must be added.

The interest and attention that a farmer gives to his purchasing association is properly the same kind of interest that he gives to his farming or to any of his other business enterprises. It is a personal interest because he personally benefits from its success. He has a dollars-and-cents reason for knowing "what makes it click," and for helping it operate effectively.

That is why, in the end, the expanding of farm supply purchasing is up to the members. It gets back to a consideration of the several factors which have been mentioned, and a business-like recognition of the problems involved in producing maximum savings for patrons.

This leaflet is condensed from Bulletin 38,  
"Cooperative Purchasing by Indiana Farmers,"  
by Gerald M. Francis, associate agricultural  
economist. Copies of this larger publication  
with more detailed information may be ob-  
tained, while available, from—

*Information and Extension Division*  
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